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SUBJECT: China Considers Restrictions on Strategic
Rare Earth Exports

REF: CANBERRA 733

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¶1. (SBU) Begin Summary: ChinaQs Ministry of Industry and Information Technology (MIIT) has drafted a report recommending more stringent restrictions on the export of rare earth metals and further consolidation in the rare earth mining sector over the next six years, according to Chinese media. Some industry analysts fear the restrictions on metals critical for hybrid and electric cars and energy efficient light bulb production will lead to shortages and higher prices for green technology products. China supplies 87 percent of the global rare earth market, and Chinese firms continue to seek additional rare earth assets in Australia. End Summary.

Tightening Export Restrictions on Rare Earth Metals

¶2. (SBU) According to Chinese media reports, MIITQs draft "Special Plan for the Development of the Rare Earth Industry 2009 Q 2015," recommends lowering ChinaQs current rare earth export quota of 35,000 tons per year, although the extent of the reduction is unclear. Certain rare earth metals--such as terbium, dysprosium, yttrium, thulium and lutetium--will reportedly face complete export bans. According to industry sources, dysprosium is a critical component in the electrical systems for hybrid and electric cars; terbium and yttrium are used in energy efficient light bulbs. Limiting or eliminating the export of these raw materials may lead to shortages and higher prices for green technology products.

¶3. (SBU) MIITQs draft plan promotes further consolidation in ChinaQs rare earth industry, specifically calling for the suspension of new approvals of rare earth mining rights and licenses from 2009 to 2015. The government will also seek to close smaller-scale and less efficient rare earth enterprises based on technical, environmental and

managerial criteria. The draft report has a specific target of reducing the number of smelting and separation enterprises from 100 to 20. (Note: The moves to consolidate industry players are consistent with government objectives advanced in the ten other industry support plans announced earlier this year. End Note.) The draft report solidifies MIIT as the key policy maker and supervisor of China's rare earth industry.

China Sees Strategic Value of Rare Earth Metals

¶4. (SBU) Given the importance of rare earth resources in the manufacture of energy efficiency goods and consumer products such as plasma and LCD televisions, China last year issued a series of measures designed to limit the export of these resources and increase oversight of the rare earth mining sector. MOFCOM, for example, reduced the number of approved rare earth exporters from 39 firms to only 20; China previously had 200 rare earth export enterprises. China also imposed a 35,000 ton per year export quota and raised export tariffs.

¶5. (SBU) Peking University Professor Xu Guangxian, China's "father of rare earth," has called for the government to set up a rare earth strategic reserve. He expects prices to rise dramatically given increasing demand and limited supplies. According to the China Mining Federation, China currently supplies 87 percent of the international rare earth market.

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Chinese Firms Eye Australian Suppliers

¶6. (SBU) In line with China's broader efforts to secure overseas energy and natural resource assets, Chinese firms are seeking equity stakes in overseas rare earth mining operations. China Non-Ferrous Metal Mining Corporation (CNMC) has offered AUD 252 million (USD 184 million) for a 51.6 percent stake in Australia's Lynas Corporation and has promised additional loans of USD 184 million (reftel). The deal is currently under review by Australia's Foreign Investment Review Board (FIRB).

¶7. (SBU) Another state-owned enterprise, East China Exploration and Development Bureau, has been approved to purchase a 25 percent stake in Arafura Resources, a Perth-based specialty metals exporter.

HUNTSMAN